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UNCLAS SECTION 01 OF 02 VILNIUS 000962

SIPDIS

SENSITIVE

STATE FOR EUR/NB, DRL/IL, PRM/ENA

E.O. 12958: N/A

TAGS: ELAB ECON SMIG PGOV LH

SUBJECT: CONTINUING EMIGRATION BEGINNING TO AFFECT LABOR MARKETS

REF: A. 04 VILNIUS 1493

1B. 04 VILNIUS 1522

11. SUMMARY: Lithuanians continue to emigrate since their country joined the EU last year. As Lithuania's skilled workers emigrate, the number of foreign laborers from Belarus and Ukraine has increased. The Government acknowledges the need for programs to manage emigration, encourage emigrants to return and prevent a near-term brain drain, but has not yet decided on a course of action. END SUMMARY.

A Steady Flow Westward

12. Many of Lithuania's citizens seek their fortune abroad, as they have since the country obtained independence in 1991. Official statistics indicate that 15,000 Lithuanians emigrated in 2004, and that an additional 10,000 left in the first half of 2005. Polls show that up to 20 percent of the country's 3.4 million citizens would like to emigrate, at least temporarily. Officially, the GOL estimates that 320,000 people, or 10% of the population, have emigrated over the past 14 years.

13. NGOs, such as the Civil Society Institute (CSI), maintain that official statistics understate the situation. The CSI estimates that more than 500,000 may have already left Lithuania, and that another three to six percent of the population will leave over the next ten years. Several factors contribute to the high rate of emigration, including higher salaries abroad, unemployment in Lithuania, and the strong Lithuanian communities overseas that facilitate the adjustment of new immigrants to their life abroad.

Filling the Gaps in the Labor Market

14. The outflow of labor is already bringing about labor shortages, especially at the lower end of the labor market, in textiles, shipbuilding, retailing, and construction. A representative of a local private employment agency reported that "the situation in the labor market has changed dramatically. A year ago, most of the time we were selecting from among candidates; now we are looking for them." Employers at a recent Amcham breakfast complained about the labor shortage, with one American forest products investor telling the Ambassador that he has had trouble finding workers "for some time." Taxi companies say that 20 percent of their positions are unfilled. Wages have been rising rapidly in the sectors where there are shortages, but are still not competitive with Western Europe.

15. The declining availability of qualified workers has had little effect on chronic unemployment. Unemployment, while declining, remains over nine percent, but urban rates are much lower, at three to four percent in some cities. Honoreta Masalskiene of the GOL Labor Exchange said that many of the unemployed are "not employable" and commented that only 20 percent of the 100,000 job seekers registered with the Exchange are qualified for work. She said that "if an employer calls us looking for workers, we have no one to offer."

16. Immigration to Lithuania, especially from Eastern European countries, is filling the gaps in the labor market. According to the Statistics Department, 2,202 people immigrated into Lithuania during the first half of 2005, a statistically insignificant increase over the first half of 2004. The number of residence permit applications, however, is increasing at a faster pace. Masalskiene told us that the number of work permits issued has dramatically increased in 2005, with 913 issued in the first seven months of the year alone, compared to 877 in all of 2004. She attributed the increase directly to replacement of emigrating workers and to Lithuania's low number of available skilled workers. According to Violeta Rozkoviene, Head of the Immigration Section in the Migration Department, there are now 25 to 30 thousand legal foreign residents in Lithuania, primarily

Russians, Ukrainians and Belarusians.

17. Work permits are relatively simple for employers to obtain. However, since unemployment is still high and employers must demonstrate they cannot fill the position locally, most immigrants are skilled industrial workers. Masalskiene said that undocumented laborers remain extremely rare, and could recall only one example - that of a Chinese restaurant worker. She anticipates, however, that illegal immigration will increase when Lithuania joins the Schengen zone in 2007.

Planning Ahead

18. VP Market, the largest retail/grocery operator in the Baltics with over 15,000 employees, reports that while labor shortages are not severe now, they anticipate problems in the future. They recently announced a pilot program to import over one hundred workers from Ukraine and Moldova.

Bringing the Expats Home

19. Undersecretary of Labor Rimantas Kairelis told us that the GOL "cannot just wait for (the emigres) to return," but must create an action plan both to maintain relations with expatriate citizens and to encourage their eventual return. The Ministry of Foreign Affairs has recently released several proposals to maintain overseas workers' ties with Lithuania, although they have not yet found funding. The MFA hopes that Lithuanians residing overseas who maintain their ties will be more likely to return. The proposals include sponsorship of Lithuanian schools in foreign countries, creating "virtual schools" on the Internet to maintain knowledge of Lithuanian language and culture and establishing a special attache position for emigrant issues in Lithuanian embassies located in countries with large numbers of Lithuanian expatriates.

10. Disincentives for emigrants to return can be substantial, including lower incomes at home, difficulties returning to the local job market, and liability for back taxes upon returning to Lithuania. Some local employers are reluctant to hire recent returnees, fearing their return will be only temporary.

11. The Parliament will discuss removing the income tax penalty on repatriation in its fall legislative session. The proposal will likely eliminate returnees' liability to pay the difference between taxes they paid in the country of foreign residence and those to which their income would have been subject in Lithuania. Workers who pay no taxes abroad would still be subject to taxes upon their return. The GOL estimates the cost to revenues of such a tax code revision at LTL 22.5 million, or EUR 6 million.

Comment

12. The labor shortages that have appeared during the last year have not yet affected Lithuania's fast-paced economic growth, but they loom as a potentially serious constraint on the economy's prospects in the future. If this small country hopes to sustain six percent-plus economic growth, as it has over the past five years, it will have to staunch the flow of its citizens going abroad - or replace them. Failure to do so will drive up production costs. This could have a range of deleterious effects, threatening foreign investment inflows and complicating the economy's achievement of inflation targets required to qualify for adoption of the Euro in 2007.

13. The most obvious solution also entails risks to this relatively homogenous society. If it continues to fill the gap from countries in the near neighborhood, Lithuania may have to deal with the social, linguistic, and cultural impact of an increasingly multicultural workforce -- many of whom are more comfortable speaking Russian than Lithuanian.

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